

State Board of Equalization

**OPERATIONS MEMO**

For Public Release

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**SUBJECT: Sales Tax Electronic Funds Transfer Program**

**I. BACKGROUND**

This program was implemented as a result of Senate Bill 467 (Statutes 1991, Chapter 473), which required the following agencies to utilize the Electronic Funds Transfer (EFT) payment process for specific types of tax payments:

- Board of Equalization - Sales and Use Tax
- Franchise Tax Board - Bank and Corporation Tax
- Employment Development Department - Personal Income Tax, Withholding and Disability Insurance Premiums

Through December 31, 2005, sales and use tax permit holders with an average monthly tax of \$20,000 or more are required to participate in the EFT program. Passage of Assembly Bill 139 on July 19, 2005 changed the requirements for mandatory payment of sales and use taxes by EFT. This bill amended Section 6479.3 to require taxpayers with sales and use tax liabilities averaging \$10,000 or more per month to participate in the EFT program. Holders of sales and use tax permits with an average monthly tax of **\$10,000** or more will be required to participate in the EFT program, beginning January 1, 2006.

On October 4, 2005, Section 6479.3 was amended to remove the requirement that Voluntary EFT filers remain on the EFT program for a minimum 12 months.

The EFT Group has been established in the Return Analysis Section to handle EFT registration, taxpayer questions, correspondence and any special processing for EFT accounts. Inquiries that cannot be handled by the field offices should be directed to the EFT Group at: 916-327-4229, CALNET 8-467-4229 or FAX at 916-322-8457, CALNET 8-492-8457 or 916-323-0478, CALNET 8-473-0478. Their mailing address is EFT Group, MIC:35, P.O. Box 942879, Sacramento, CA 94279-0035.

## II. PAYMENT METHODS

EFT is a method for instructing financial institutions to transfer funds electronically from one account to another, thereby eliminating the use of paper checks. Two payment types are allowed; Automated Clearing House (ACH) Debit and ACH Credit. Use of a Fedwire is allowed in emergency situations only.

ACH Debit This method allows the taxpayer to transfer funds by authorizing the state to electronically debit the taxpayer's designated account for an amount the taxpayer has reported to the state's data collector as due for the period in question.

ACH Credit This method allows the taxpayer to transfer funds by authorizing their bank to credit the state's bank account for the amount due for the period in question.

Fedwire This system is designed to transfer funds instantaneously and not to transfer data. It is available as an EFT payment method *only* in emergency situations and *only* with the prior approval of the EFT Group.

## III. PROGRAM PARTICIPATION

Mandatory Annual reviews of the Revenue Subsystem records are conducted to identify mandatory participants. Tax reported is averaged over a twelve month period to determine the monthly tax amount.

Voluntary Taxpayers not meeting the mandatory threshold criteria may participate in the program on a voluntary basis. They must file an authorization agreement prior to participation.

Withdrawal When the annual review for mandatory participation is conducted, the system will identify any accounts already included in the EFT process that have dropped below the threshold. The account must average less than the threshold for the entire twelve-month period to be considered for removal from EFT status. The taxpayer will receive written notification of this and be given the option of remaining in the program as voluntary or withdrawing completely. Requests to withdraw must be submitted in writing to the EFT Group.

Whether mandatory or voluntary, taxpayers must continue to report tax payments through the EFT process until notified in writing of an effective date to withdraw from the program.

## IV. REGISTRATION

To register to participate in the EFT program, taxpayers must complete Form BOE-555-EFT, *Authorization Agreement for Electronic Funds Transfer (EFT)*, and submit it to the EFT Group. The taxpayer will receive a confirmation letter and further information regarding the payment method chosen. The registration form may be found in Publication 80, *Electronic Funds Transfer Program Information Guide*. These forms are also available through the Board's supply unit.

ACH Debit Complete sections I and II of Form BOE-555-EFT and submit with the taxpayer's voided check for the bank account from which the EFT payments will be debited. If the taxpayer is unable to provide a voided check, a bank specification sheet may be used instead. The specification sheet may be obtained from the taxpayer's bank.

ACH Credit Complete sections I and III of Form BOE-555-EFT.

Headquarters

Responsibility Each year, the Integrated Revenue Information System (IRIS) automatically generates the reports used by the EFT Group to conduct the annual mandatory participation review. Accounts meeting the EFT criteria will be mailed Publication 80 along with a cover letter informing them of the EFT requirements and the time within which to return the agreement.

The EFT Group will review the authorization agreements for accuracy and completeness. The authorization agreement will be entered into the system, which will generate the confirmation letter and will reflect the EFT start date. The start date will be the following January.

The EFT Group will forward the authorization agreements to the Taxpayer Records Unit when all necessary action is completed.

District

Responsibility The following types of accounts will receive Publication 80 from the field offices when registering for their sales tax permit. All others will be identified for registration through the annual participation review in Headquarters.

1. New successor accounts where the predecessor was on EFT as a mandatory participant and the successor purchased enough of the predecessor locations to qualify as a mandatory participant that meets the minimum threshold requirements.
2. Ownership changes of substantially the same ownership, if the prior account was on mandatory EFT.
3. Voluntary EFT taxpayers.

The field office must notify the EFT Group immediately when items 1 and 2 above happen. Field offices will notify the EFT Group by calling 916-327-4229 with the taxpayer's name and account number along with the predecessor's name and account number.

Any authorization agreements received in the field offices will immediately be forwarded to the EFT Group.

Changes      The taxpayer must contact the EFT Group as soon as possible when making any of the following changes as a new authorization agreement is required.

- Change payment methods (i.e. ACH Debit to ACH Credit)
- Change of financial institution
- Change of designated bank account number
- Change of EFT contact person or telephone number

## **V.      SYSTEM INFORMATION**

Teale      When a taxpayer is participating in the EFT program, the following information will be available on the Taxpayer Activity Registration System Account Inquiry (TAR AI) screen:

- EFT Mandatory - Debit
- EFT Mandatory - Credit
- EFT Voluntary - Debit
- EFT Voluntary - Credit

When a taxpayer is participating in the EFT program, the TAR AI screen will indicate an EFT identifier ( $\geq$ ). The EFT Inquiry screen may be brought up by placing an "M" on the identifier. The EFT Inquiry screen contains basic information regarding the authorization agreement, EFT effective dates and EFT registration information. Banking information will be updated by the EFT Group upon receipt of a new authorization agreement when changes occur.

EFT payments will be posted on the Payment Subsystem in addition to the return information. To determine if a payment was made by EFT, you should go to the "PAY BA" screen or "PAY EA" screen. Place an "M" in the action field of the payment and hit the "transmit" key.

EFT comments may be accessed from the *EFT Inquiry* screen. If EFT comments are available, it will be noted in the upper right-hand corner of this screen. Information regarding explanation of penalty assessments, penalty relief requests, etc. may be found here. Only the Return Analysis Section can update the EFT comments.

## **VI.      DUE DATES**

The EFT program has no effect on the due date for tax returns. All returns are still required to be postmarked no later than the due date specified. Prepayment forms are no longer required to be filed, although the payment is still due.

Payments made under the ACH Debit system must be completed by 3:00 p.m. (Pacific Time) on the period due date so the funds will be applied to the state's bank account timely.

Payments made under the ACH Credit system may take longer to process. Because each bank's process is different, the taxpayer should check with his or her own bank to determine when the process must be initiated in order to be received in the state's bank account timely.

For an electronic payment to be timely, the transferred funds must settle (transfer) into the Board's bank account by the *first banking day following the tax due date*. The settlement date will be reflected on the Payment Subsystem along with the cash date. By this, you will be able to tell whether or not the payment was timely. (Note: IRIS will show both the effective date and the settlement date for the EFT payments.)

## VII. PENALTIES

Section 6479.3 has been amended, effective January 1, 1999, to limit the penalties imposed to a maximum of ten percent of the taxes due for any one return, exclusive of any prepayments. The following information explains the type and circumstances when penalties are assessed.

### Failure to Pay

Taxes by EFT Payment made through any means other than EFT (i.e. cash or check) will be subject to a ten-percent penalty on the non-EFT payment. All payments against future return payments and prepayments that are not made through EFT are also subject to this penalty. All return payments and prepayments must be made through EFT to avoid this penalty.

### Failure to File a Timely

Tax Return If the return is not filed on a timely basis, even though the EFT payment may have been paid timely, a ten percent penalty on the taxes that are due for the reporting period, excluding prepayments, will be assessed.

### Late EFT Payment

If the EFT payment (other than prepayments) is not timely, the taxpayer will be assessed a ten percent penalty and applicable interest charges.

### Late EFT

Prepayments Section 6479.3 has been amended, effective January 1, 2000 (starting with the January 2000 Prepayment period), to limit penalties assessed on EFT prepayments. If a prepayment is not timely or is not remitted by the appropriate EFT method, but made before or on the quarterly due date, the taxpayer will be assessed a maximum six percent penalty. For example, if a January prepayment is made by check after February 24 and prior to the first quarter (1<sup>st</sup> Qtr) due date (April 30), a six percent penalty would be assessed. If a prepayment is made after a quarterly due date, the taxpayer will be assessed a maximum ten percent penalty. If a timely prepayment was made by means other than EFT, a maximum six percent penalty is imposed.

Relief of  
Penalties

Accounts that are subject to multiple penalties must provide a reason why they should be relieved for each penalty. The request for relief must be either granted or denied in its entirety. The taxpayer will be relieved of all penalties imposed if the request for relief is granted. If the request for relief is denied for any one of the penalties, the remaining applicable penalty applies.

**VIII. NON-PAYMENT REPORT**

The EFT Non-Payment Report was developed to provide the in-state districts with those accounts where a payment has not been received. This listing contains missing prepayments and accounts with unfiled returns, as well as accounts that filed the return but did not send a payment.

The EFT Non-Payment Report is generated automatically by IRIS on the fourth working day after the due date of the payment and is available for view in the IRIS PAY DI screen.

The procedure for this list is as follows:

- Check account against Revenue Subsystem (REV FZ) to determine if payment has been posted.
- Check account against Difference (DIF DA) and/or Payment Subsystem (PAY BU) to determine if unapplied credits exist.
- Check the EFT Comments screen to determine if the taxpayer has contacted the EFT Group regarding payment arrangements for the period in question.
- If the taxpayer indicates payment has been made, it is possible that either the taxpayer or their bank has made an error on the addenda record, which is preventing the payment from posting to the proper account. The EFT Group will notify them of the type of error made when they correct the entry. If payment arrangements do not appear to have been made, contact the taxpayer. If the taxpayer indicates payment has not been made, instruct them to do so immediately through the EFT program.

Occasionally an account may appear on the list; however, the payment is reflected when the Revenue Subsystem (REV FZ) is checked and a Return Analysis Section adjustment is indicated on the "REV SV" screen or the "REV RE" screen for that period. This will occur when the EFT Group has had to manually move the payment after the list was generated to the proper account because the addenda record was incorrect. No action need be taken on these.

When the taxpayer designates the prepayment period erroneously (i.e. prepayment 2 instead of prepayment 1), please notify the EFT Group by utilizing Form BOE-103, *Adjustment Request Memorandum*.

When a taxpayer having multiple account numbers has processed their payment under only one account number, please notify the EFT Group by calling 916-327-4229 with the account number reflecting the payment and other accounts the payment covers.

Questions regarding this listing should be directed to the Compliance & Technology Section at: 916-445-5167 or CALNET 8-485-5167.

## **IX. NON-REMITTANCE REPORT**

The EFT Non-Remittance Report has been developed to notify the EFT Group of those accounts that have filed a return where no remittance or partial payment has been received. This listing is generated by IRIS on the twenty-eighth day of each month. The EFT Group then reviews the list and attempts to match the payments that have not been properly posted to a taxpayer's account for the return in question. Accounts that appear to be a valid non-remittance/partial remittance for a return period will be billed accordingly.

Questions regarding this listing should be directed to the EFT Group.

## **X. MISCELLANEOUS**

SC Accounts Certain SC accounts will not be required to participate in the EFT program. Any questions regarding which SC accounts are involved should be directed to the EFT Group.

Tracing a Payment Occasionally, it may be necessary to trace a payment.

Taxpayers reporting through ACH Debit will be furnished with a reference number with each transaction. The taxpayer should contact the EFT Group with the reference number for the payment in question and they will work with the taxpayer and the Board's bank to trace the date and time of payment.

Taxpayers reporting through ACH Credit must work directly with their bank to trace a payment. The EFT Group is not able to assist the taxpayer in these cases.

Zero

Amount Due Although no tax may be due for a given period, an EFT transaction must still be made. The taxpayer should be instructed to indicate a zero dollar amount.

First Payment When an account joins the EFT program, the first payment due after the effective date must be made through EFT. For example, if the effective date were January 1, 2006 the first payment due through EFT would be the fourth quarter (4th Qtr) or December 2005 return.

Last Payment When an active account is no longer participating in the EFT program, the last payment due through EFT would include those periods due prior to the effective date of the change. For example, if the taxpayer is removed from the EFT program effective December 31, 2005, the November 2005 prepayment is the final payment due through EFT.

When an account participating in the EFT program closes out, the final return is due through EFT.

## **XI. OBSOLESCENCE**

This operations memo will become obsolete when the information contained herein is incorporated into the appropriate manuals.

Randie L. Henry  
Deputy Director  
Sales and Use Tax Department

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